

# **City of Farmington, Michigan**

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## **Financial Report with Supplemental information June 30, 2003**

# City of Farmington, Michigan

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## Independent Auditor's Report

To the City Council  
City of Farmington, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Farmington as of and for the year ended June 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Farmington's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Farmington as of June 30, 2003 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the City Council  
City of Farmington, Michigan

The accompanying required supplemental information and other supplemental information, as identified in the table of contents, are not required parts of the basic financial statements. The required supplemental information is information required by the Governmental Accounting Standards Board; the other supplemental information is presented for the purpose of additional analysis. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Farmington's basic financial statements. The required supplemental information and the other supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 11, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2003 on our consideration of the City of Farmington's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Plante & Moran, PLLC*

September 12, 2003

# City of Farmington, Michigan

## Management's Discussion and Analysis

### *Overview of the Financial Statements*

The City's annual report consists of this analysis (management's discussion and analysis), government-wide financial statements, fund financial statements, notes to the financial statements, required supplemental information, and, finally, other supplemental information.

During this fiscal year, the City fully implemented the Governmental Accounting Standards Board's (GASB) Statement No. 34. This accounting pronouncement, among other changes, adds government-wide financial statements, which were designed to provide a broad overview of the City's finances. The government-wide financial statements are presented on a full accrual basis of accounting, with an emphasis on measuring all economic resources and not just current financial resources, as measured in the individual fund statements. These statements make a distinction between governmental activities, such as public safety and public works, and business-type activities, such as the provision of water and sewerage service. Two government-wide statements are provided.

One government-wide statement, the statement of net assets, presents information on all of the City's assets and liabilities with the difference shown as net assets. Increases or decreases of net assets from period to period provide useful information on the direction of the City's financial position over time.

The other government-wide statement, the statement of activities, provides information on how the government-wide net assets changed during the fiscal year. This statement provides information on income, expenses, and other increases or decreases in net assets.

Following the government-wide statements, individual fund financial statements are provided for the City's major funds with one column provided for nonmajor funds. These statements are grouped into governmental funds, which account for the cost of providing governmental-type services such as public safety and public works; proprietary funds, which account for business-type activities such as provision of water and sewer services; and fiduciary funds, which account for assets held for outside parties.

Reconciliation between the individual fund statements and the government-wide financial statements is provided following the individual fund statements. The differences between the statement of net assets and the fund-based balance sheet are primarily related to inclusion of capital assets, certain receivables, and long-term liabilities in the government-wide statement of net assets, which are not included in the fund-based balance sheet. The differences between the statement of activities and the statement of revenues, expenditures, and changes in fund balances primarily relate to the timing of reporting capital outlays and debt principal payments in the fund statements and a difference in the timing of the recognition of certain revenues and expenditures such as bond proceeds, accrued interest, and accrued employee leave time.

# City of Farmington, Michigan

## Management's Discussion and Analysis (Continued)

### Financial Position and Results of Operation for the City as a Whole

The City had an increase of \$1,075,164 in net assets in its governmental activities for the fiscal year ended June 30, 2003, resulting primarily from expenditures in general government operations significantly below budget. The increase in net assets was planned to provide for accumulation of reserves for road improvements and general debt service. Additions to assets, accumulated for debt service, were to ensure that adequate funds were on hand to service debt in a timely manner and additions for street millage funds were accumulated in compliance with a voter-approved tax levy for a street improvement program.

Net assets in the water and sewer operations activity increased by \$2,225,587. The majority of the increase in net assets resulted from a federal grant of \$1,388,015 that the City received for sewer system improvements and from contributed capital that the City received from the County in the form of a new water main in the amount of \$230,478. In addition, the City received property tax revenue of \$729,150 to service debt on a general obligation bond issued to fund improvements made to the sewer system in early 1990.

In a condensed format, the tables below show the net assets and changes in net assets (in thousands of dollars) as of June 30, 2003:

	Governmental Activities	Business-type Activities	Total
Current assets	\$ 8,784	\$ 3,710	\$ 12,494
Noncurrent assets	11,924	17,759	29,683
Total assets	20,708	21,469	42,177
Current liabilities	1,296	1,221	2,517
Long-term liabilities	2,066	6,705	8,771
Total liabilities	3,362	7,926	11,288
Net assets:			
Invested in capital assets - Net of related debt	9,282	10,923	20,205
Restricted	1,403	75	1,478
Unrestricted	6,661	2,545	9,206
Total net assets	<u>\$ 17,346</u>	<u>\$ 13,543</u>	<u>\$ 30,889</u>

# City of Farmington, Michigan

## Management's Discussion and Analysis (Continued)

	Governmental Activities	Business-type Activities	Total
<b>Revenue</b>			
Program revenue:			
Charges for services	\$ 1,061	\$ 3,187	\$ 4,248
Operating grants and contributions	712	-	712
Capital grants and contributions	37	1,770	1,807
General revenue:			
Property taxes	4,690	729	5,419
State-shared revenues	1,100	-	1,100
Unrestricted investment earnings	117	30	147
Cable franchise fees	61	-	61
Cell tower fees	17	-	17
Miscellaneous	25	2	27
Gain (loss) on sale of capital assets	22	(34)	(12)
Total revenue	7,842	5,684	13,526
<b>Program Expenses</b>			
General government	1,763	-	1,763
Public safety	2,557	-	2,557
Public works	1,674	-	1,674
Health and welfare	29	-	29
Community and economic development	10	-	10
Recreation and culture	710	-	710
Interest on long-term debt	112	-	112
Water and sewer	-	3,136	3,136
Community theatre	-	364	364
Total program expenses	6,855	3,500	10,355
<b>Change in Net Assets</b>	<b>\$ 987</b>	<b>\$ 2,184</b>	<b>\$ 3,171</b>

### Governmental Activities

Over the last few years, the City has experienced slow but steady growth in tax revenues which have been capped by State statute since 1996 at the lesser of 5 percent or the rate of inflation. Expenses had remained relatively stable and within the general rate of inflation until this fiscal year, during which the City has seen a 20 percent to 25 percent increase in insurance premiums, including health care premiums, and over a 100 percent increase in the required contribution for employee pension benefits.



# City of Farmington, Michigan

## Management's Discussion and Analysis (Continued)

State-shared revenues, statutorily designated to support local community services and historically about 20 percent of the City's general operating revenues, have been partially captured by the State of Michigan for the last several years for use in funding State expenditures. This fiscal year, the City received \$64,303 less than in fiscal 2002, \$117,817 less than in fiscal 2001, and \$132,706 less than in fiscal 2000.

The City of Farmington, by policy, maintains a cash surplus sufficient to bridge any potential shortfalls in current year revenues or increases in ordinary but unanticipated current year expenditures. Prudent financial planning places the City in a sound financial position with adequate cash reserves.

### **Business-type Activities**

The City operates a water and sewer system and a theatre. The water and sewer system provides water and sewage services to almost all of the City's residents and to some outside users. Rates are set to provide for annual operations, to service debt, and to build a small operating cash reserve. Rates are evaluated annually and were increased July 1, 2002 by 12.95 percent for water and 16.97 percent for sewer. Water loss for the year was approximately 13.6 percent of water purchased.

The City operates a theatre which ended the year with an operating loss, including depreciation charges, of \$42,026. The City purchased the theatre in 1999 and anticipated operating deficits in the first few years of operation.

### **Analysis of Individual Funds**

Of the City's governmental funds, the General Fund and the Major and Local Street Funds account for all significant expenditures.

The General Fund ended the fiscal year with an addition to its fund balance in the amount of \$558,052. Major revenue sources, particularly State-shared revenues and interest earnings, were down significantly from previous years.

Both the Major and Local Street Funds ended the year with surpluses of \$29,384 and \$9,711, respectively. City streets are in excellent condition and, as a result of a voter-approved millage for street construction and maintenance, funding remains adequate for future road projects and road repair needs.

# **City of Farmington, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **General Operating Fund Budget Highlights**

The City's original and amended general operating budget remained at essentially the same overall level. During the annual budget process, the City completes an extensive review of the current year budget, culminating in a budget amendment to appropriate the revised expenditure estimates. Due to restructuring and renumbering of activities to comply with revisions in the State-mandated chart of accounts, the amended budget for several activities changed to reflect these revisions. As a result of carefully monitoring expenditures throughout the year and a practice and history of conservative budgeting, the General Fund ended the year with a surplus of \$558,052, exceeding budgeted projections by \$496,219.

### **Capital Asset and Long-term Debt Activity**

#### ***Capital Assets***

Major capital asset and infrastructure additions in governmental funds consisted of road improvements in the amount of \$530,466 to local streets and \$161,758 in contributions to construction-in-progress on county roads.

In the Water and Sewer Fund, a new water main with a construction-in-progress value of \$230,618 was recorded as a contribution and improvement of a sewer main in the amount of \$2,470,526 was completed.

#### ***Long-term Debt***

New debt issued by the City during 2002-2003 consisted of a voter-approved general obligation bond issue for sewer improvements in the amount of \$900,000. In addition, Oakland County refunded bonds and issued the 2003 Caddell Drain Refunding Issue, for which the City of Farmington has been special assessed \$286,280, payable in installments through fiscal year 2014. This eliminated a prior special drain assessment in the amount of \$282,289.

The City is party to a lease agreement with the City of Farmington Hills Building Authority to share costs with the City of Farmington Hills to provide a new court facility. The amount of debt issued by the Farmington Hills Building Authority for which the City of Farmington is responsible under the terms of the lease is \$1,374,840 as of June 30, 2003.

# City of Farmington, Michigan

## Management's Discussion and Analysis (Continued)

### Economic Factors and Next Year's Budgets and Rates

The City has enjoyed a relatively stable property tax millage rate over many years with the exception of millage added in 1991 to provide for extensive revisions to the City's sewer system and a road program millage approved by the voters in 1995 to ensure streets in the City are in excellent repair. With these two additions totaling approximately 4 mills, the millage went from about 11 mills in 1990 to just over 15 mills in 2003. During this time the City also discontinued special assessments for sidewalk repairs, instead providing for sidewalk repairs through the tax millage.

Farmington is a fully developed small city and as such depends on growth in property values to offset growth in expenditures supported by taxes and to offset reductions in State-shared revenues. Property taxes account for almost 60 percent of General Fund revenues. Property tax values have only grown by an average of 3.6 percent over the last three years. State-shared revenues, which historically accounted for about 20 percent of General Fund revenues, have declined to about 16 percent of revenues this year. Current funding levels are at risk due to the financial condition and priorities of the State.

The City has budgeted for increases in pension contributions, employee and retiree health care costs, and general insurance costs in the 2003-2004 fiscal year. Pension costs are expected to increase dramatically due to conditions in the financial markets and it appears that inflation in health care and insurance costs will continue to rise.

The City has experienced no specific events which it believes will materially impact the finances of the City. However, certain long-term trends, such as capped property tax revenues and shrinking State-shared revenues, will have a direct impact on the City's ability to continue current service levels as inflation in the cost of providing those services reappears. Adequate cash reserves and authorized unlevied millage ensures continuation of current services in the near term as the City meets these challenges and plans for the future.

### Contacting the City's Financial Management

This financial report is designed to provide accountability of our stewardship of the resources provided by our citizens, taxpayers, and customers and to provide financial information to the City's investors and creditors. If you have any questions about this report or need additional financial information, contact the City Manager or City Treasurer at City Hall, 23600 Liberty Street, Farmington, Michigan 48335.

# City of Farmington, Michigan

## Statement of Net Assets June 30, 2003

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
<b>Assets</b>				
Cash and investments (Note 3)	\$ 8,138,403	\$ 2,812,890	\$ 10,951,293	\$ 358,784
Receivables (Note 4)	503,130	856,571	1,359,701	12,101
Internal balances	27,066	(27,066)	-	-
Prepaid costs and other assets	115,260	67,205	182,465	-
Long-term internal advances (Note 6)	678,211	(678,211)	-	-
Restricted assets	-	75,000	75,000	-
Capital assets (Note 5):				
Depreciable	8,225,329	17,958,291	26,183,620	80,883
Nondepreciable	3,020,067	404,127	3,424,194	76,500
Total assets	20,707,466	21,468,807	42,176,273	528,268
<b>Liabilities</b>				
Accounts payable	457,338	381,868	839,206	18,819
Accrued and other liabilities	270,915	57,458	328,373	-
Due to other governmental units	5,357	317	5,674	8,109
Noncurrent liabilities:				
Bonds payable, due within one year (Note 7)	149,027	735,000	884,027	-
Bonds payable, due in more than one year (Note 7)	1,814,741	6,705,000	8,519,741	-
Employee compensated absences, due within one year	413,468	46,383	459,851	-
Employee compensated absences, due in more than one year	251,342	-	251,342	-
Total liabilities	3,362,188	7,926,026	11,288,214	26,928
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	9,281,628	10,922,418	20,204,046	157,383
Restricted:				
Streets and highways	1,276,398	-	1,276,398	-
Debt service	126,625	-	126,625	-
Bond covenants	-	75,000	75,000	-
Unrestricted	6,660,627	2,545,363	9,205,990	343,957
Total net assets	\$ 17,345,278	\$ 13,542,781	\$ 30,888,059	\$ 501,340

# City of Farmington, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 1,763,317	\$ 452,592	\$ -	\$ -
Public safety	2,557,220	293,143	8,058	-
Public works	1,674,271	291,529	639,190	37,290
Health and welfare	28,667	-	-	-
Community and economic development	9,998	7,022	-	-
Recreation and culture	709,854	16,854	65,036	-
Interest on long-term debt	112,470	-	-	-
Total governmental activities	6,855,797	1,061,140	712,284	37,290
Business-type activities:				
Water and sewer	3,135,691	2,866,308	-	1,770,465
Farmington Community Theater	364,499	320,348	-	-
Total business-type activities	3,500,190	3,186,656	-	1,770,465
Total primary government	<u>\$ 10,355,987</u>	<u>\$ 4,247,796</u>	<u>\$ 712,284</u>	<u>\$ 1,807,755</u>
Component unit - Downtown Development Authority	<u>\$ 281,234</u>	<u>\$ -</u>	<u>\$ 135,104</u>	<u>\$ 62,500</u>

General revenues:  
 Property taxes  
 State-shared revenues  
 Unrestricted investment earnings  
 Cable franchise fees  
 Cell tower fees  
 Miscellaneous  
 Gain (loss) on sale of capital assets

Total general revenues

## Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

**Statement of Activities**  
**Year Ended June 30, 2003**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (1,310,725)	\$ -	\$ (1,310,725)	\$ -
(2,256,019)	-	(2,256,019)	-
(706,262)	-	(706,262)	-
(28,667)	-	(28,667)	-
(2,976)	-	(2,976)	-
(627,964)	-	(627,964)	-
(112,470)	-	(112,470)	-
(5,045,083)	-	(5,045,083)	-
-	1,501,082	1,501,082	-
-	(44,151)	(44,151)	-
-	1,456,931	1,456,931	-
(5,045,083)	1,456,931	(3,588,152)	-
-	-	-	(83,630)
4,690,116	729,150	5,419,266	187,833
1,099,930	-	1,099,930	-
116,727	29,720	146,447	5,827
60,797	-	60,797	-
17,226	-	17,226	-
24,569	1,668	26,237	32
21,623	(33,908)	(12,285)	-
6,030,988	726,630	6,757,618	193,692
985,905	2,183,561	3,169,466	110,062
16,359,373	11,359,220	27,718,593	391,278
<b>\$ 17,345,278</b>	<b>\$ 13,542,781</b>	<b>\$ 30,888,059</b>	<b>\$ 501,340</b>

# City of Farmington, Michigan

	General Fund	Major Street Fund	Local Street Fund	Municipal Street Fund
<b>Assets</b>				
Cash and investments	\$ 3,632,271	\$ 634,355	\$ 139,813	\$ 729,281
Receivables - Net	389,135	81,013	27,951	1,197
Due from other funds	95,815	406	327,625	-
Other assets	41,716	-	-	-
Advances due from other funds	-	-	-	-
Total assets	<u>\$ 4,158,937</u>	<u>\$ 715,774</u>	<u>\$ 495,389</u>	<u>\$ 730,478</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 188,295	\$ 20,437	\$ 248,606	\$ -
Accrued and other liabilities	185,491	-	-	-
Due to other governmental units	5,357	-	-	-
Due to other funds	580	15,521	53,054	327,625
Deferred revenue	3,284	-	-	-
Total liabilities	383,007	35,958	301,660	327,625
<b>Fund Balances</b>				
Reserved for:				
Advances due from other funds	-	-	-	-
Inventory	41,716	-	-	-
Unreserved - Reported in:				
General Fund	2,314,235	-	-	-
Special Revenue Funds	-	432,456	171,079	335,183
Debt Service Funds	-	-	-	-
Designated (Note 12)	1,419,979	247,360	22,650	67,670
Total fund balances	<u>3,775,930</u>	<u>679,816</u>	<u>193,729</u>	<u>402,853</u>
Total liabilities and fund balances	<u>\$ 4,158,937</u>	<u>\$ 715,774</u>	<u>\$ 495,389</u>	<u>\$ 730,478</u>

**Governmental Funds  
Balance Sheet  
June 30, 2003**

Capital Improvement Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 2,644,150	\$ 124,462	\$ 7,904,332
1,671	2,163	503,130
-	-	423,846
-	-	41,716
678,211	-	678,211
<u>\$ 3,324,032</u>	<u>\$ 126,625</u>	<u>\$ 9,551,235</u>
\$ -	\$ -	\$ 457,338
-	-	185,491
-	-	5,357
-	-	396,780
-	-	3,284
-	-	1,048,250
678,211	-	678,211
-	-	41,716
-	-	2,314,235
2,645,821	-	3,584,539
-	126,625	126,625
-	-	1,757,659
<u>3,324,032</u>	<u>126,625</u>	<u>8,502,985</u>
<u>\$ 3,324,032</u>	<u>\$ 126,625</u>	<u>\$ 9,551,235</u>



# City of Farmington, Michigan

## **Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets Year Ended June 30, 2003**

<b>Fund Balance - Total Governmental Funds</b>	<b>\$ 8,502,985</b>
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	11,245,396
Certain receivables are expected to be collected over several years in the General Fund and are not available to pay for current year expenditures	3,284
Long-term liabilities not due and payable in the current period and not reported in the funds, including:	
Compensated absences	(664,810)
Interest payable	(32,356)
Bonds payable	(1,963,768)

Internal Service Fund is included as part of governmental activities	254,547
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<b>Net Assets - Governmental Activities</b>	<b><u>\$ 17,345,278</u></b>
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# City of Farmington, Michigan

	General Fund	Major Street Fund	Local Street Fund	Municipal Street Fund
<b>Revenues</b>				
Property taxes	\$ 3,885,923	\$ -	\$ -	\$ 546,485
Licenses and permits	89,606	-	-	-
Federal grants	65,036	37,290	-	-
State-shared revenues and grants	1,114,233	461,839	161,870	-
Charges for services	866,397	-	-	-
Fines and forfeitures	540,143	-	-	-
Interest and rentals	67,389	7,293	2,945	7,908
Other	192,800	-	7,551	-
Total revenues	6,821,527	506,422	172,366	554,393
<b>Expenditures</b>				
Current:				
General government	1,285,954	-	-	-
Court	324,016	-	-	-
Public safety	1,964,988	-	-	-
Public services	835,882	438,233	727,668	-
Health and welfare	28,667	-	-	-
Community and economic development	9,998	-	-	-
Recreation and culture	401,218	-	-	-
Library	284,484	-	-	-
Other:				
Insurance and bonds	98,236	-	-	-
Employee benefits	804,910	-	-	-
Retiree health care plan	246,745	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	6,285,098	438,233	727,668	-
<b>Excess of Revenues Over (Under) Expenditures</b>	536,429	68,189	(555,302)	554,393
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	598,606	-
Transfers out	-	(38,805)	(33,593)	(598,606)
Proceeds from sale of capital assets	21,623	-	-	-
Assessment related to Caddell debt refunding	-	-	-	-
Payment to escrow agent related to Caddell debt refunding	-	-	-	-
Total other financing sources (uses)	21,623	(38,805)	565,013	(598,606)
<b>Net Change in Fund Balances</b>	558,052	29,384	9,711	(44,213)
<b>Fund Balances - Beginning of year</b>	3,217,878	650,432	184,018	447,066
<b>Fund Balances - End of year</b>	<b>\$ 3,775,930</b>	<b>\$ 679,816</b>	<b>\$ 193,729</b>	<b>\$ 402,853</b>

**Governmental Funds**  
**Statement of Revenue, Expenditures, and**  
**Changes in Fund Balances**  
**Year Ended June 30, 2003**

Capital Improvement Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 143,423	\$ 4,575,831
-	-	89,606
-	-	102,326
-	-	1,737,942
-	-	866,397
-	-	540,143
37,943	2,747	126,225
-	-	200,351
37,943	146,170	8,238,821
-	-	1,285,954
-	-	324,016
-	-	1,964,988
-	-	2,001,783
-	-	28,667
-	-	9,998
-	-	401,218
-	-	284,484
-	-	98,236
-	-	804,910
-	-	246,745
-	132,618	132,618
-	104,789	104,789
-	237,407	7,688,406
37,943	(91,237)	550,415
-	72,398	671,004
-	-	(671,004)
-	-	21,623
-	286,280	286,280
-	(280,157)	(280,157)
-	78,521	27,746
37,943	(12,716)	578,161
3,286,089	139,341	7,924,824
<b>\$ 3,324,032</b>	<b>\$ 126,625</b>	<b>\$ 8,502,985</b>

# City of Farmington, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2003**

**Net Change in Fund Balances - Total Governmental Funds** \$ 578,161

Amounts reported for governmental activities in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures; in the  
statement of activities, these costs are allocated over their estimated  
useful lives as depreciation 283,124

Governmental funds report proceeds from sale of assets as an other  
financing source; in the statement of activities, gain or loss on sale  
of capital assets is recorded (1,299)

Revenue related to special assessments is recorded when earned  
in the statement of activities, and recorded only when available  
in the governmental funds (1,642)

Repayment of bond principal is an expenditure in the governmental funds,  
but not in the statement of activities (where it reduces long-term  
debt) 399,852

Proceeds of bond issuance is another financing source in the  
governmental funds, but not in the statement of activities (where  
it increases long-term debt) (286,280)

Decrease in accrued interest recorded in the statement of activities 5,242

Decreases in accumulated employee sick and vacation pay, as well as  
estimated general liability claims, are recorded when earned in the  
statement of activities 28,386

Internal Service Funds are included as governmental activities (19,639)

**Change in Net Assets of Governmental Activities** \$ 985,905

# City of Farmington, Michigan

## Proprietary Funds Statement of Net Assets (Deficit) June 30, 2003

	Water and Sewer	Farmington Community Theater	Total	Internal Service Fund
<b>Assets</b>				
Current assets:				
Cash and investments	\$ 2,803,371	\$ 9,519	\$ 2,812,890	\$ 234,071
Receivables - Net	849,223	7,348	856,571	-
Due from other funds	180	400	580	-
Other assets	50,596	16,609	67,205	73,544
Total current assets	3,703,370	33,876	3,737,246	307,615
Noncurrent assets:				
Restricted assets	75,000	-	75,000	-
Capital assets	17,321,099	1,041,319	18,362,418	-
Total noncurrent assets	17,396,099	1,041,319	18,437,418	-
Total assets	21,099,469	1,075,195	22,174,664	307,615
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	368,384	13,484	381,868	-
Accrued and other liabilities	52,614	4,844	57,458	53,068
Due to other funds	27,585	61	27,646	-
Due to other governmental units	-	317	317	-
Current portion of employee compensated absences	46,383	-	46,383	-
Current portion of long-term debt	700,000	35,000	735,000	-
Total current liabilities	1,194,966	53,706	1,248,672	53,068
Noncurrent liabilities:				
Advances due to other funds	-	678,211	678,211	-
Long-term debt - Net of current portion	6,115,000	590,000	6,705,000	-
Total noncurrent liabilities	6,115,000	1,268,211	7,383,211	-
Total liabilities	7,309,966	1,321,917	8,631,883	53,068
<b>Net Assets (Deficit)</b>				
Investment in capital assets - Net of related debt	10,506,099	416,319	10,922,418	-
Restricted	75,000	-	75,000	-
Unrestricted net assets (deficit)	3,208,404	(663,041)	2,545,363	254,547
Total net assets (deficit)	<u>\$ 13,789,503</u>	<u>\$ (246,722)</u>	<u>\$ 13,542,781</u>	<u>\$ 254,547</u>

# City of Farmington, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets (Deficit) Year Ended June 30, 2003

	Water and Sewer	Farmington Community Theater	Total	Internal Service Fund
<b>Operating Revenues</b>				
Fees	\$ -	\$ 320,348	\$ 320,348	\$ -
Water sales	1,160,113	-	1,160,113	-
Sewage disposal charges	1,590,681	-	1,590,681	-
Service charges	59,983	-	59,983	151,132
Other income	55,531	1,668	57,199	-
Total operating revenues	2,866,308	322,016	3,188,324	151,132
<b>Operating Expenses</b>				
Source of supply	1,398,505	-	1,398,505	-
Transmission, distribution, and maintenance	881,028	25,773	906,801	-
Administrative and general	726,445	300,889	1,027,334	-
Insurance costs	-	-	-	177,834
Total operating expenses	3,005,978	326,662	3,332,640	177,834
<b>Operating Loss</b>	(139,670)	(4,646)	(144,316)	(26,702)
<b>Nonoperating Revenue (Expenses)</b>				
Property taxes	729,150	-	729,150	-
Federal sources	1,388,015	-	1,388,015	-
Grants	151,972	-	151,972	-
Investment income	29,263	457	29,720	7,063
Interest expense	(129,713)	(37,837)	(167,550)	-
Loss on disposal of assets	(33,908)	-	(33,908)	-
Total nonoperating revenue (expenses)	2,134,779	(37,380)	2,097,399	7,063
<b>Capital Contributions</b>	230,478	-	230,478	-
<b>Change in Net Assets</b>	2,225,587	(42,026)	2,183,561	(19,639)
<b>Net Assets (Deficit) - Beginning of year</b>	11,563,916	(204,696)	11,359,220	274,186
<b>Net Assets (Deficit) - End of year</b>	<b>\$ 13,789,503</b>	<b>\$ (246,722)</b>	<b>\$ 13,542,781</b>	<b>\$ 254,547</b>

# City of Farmington, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2003

	Water and Sewer	Farmington Community Theater	Total	Internal Service Fund
<b>Cash Flows from Operating Activities</b>				
Receipts from customers	\$ 2,800,792	\$ 319,491	\$ 3,120,283	\$ 151,132
Payments to suppliers	(1,675,567)	(304,045)	(1,979,612)	(155,450)
Payments to employees	(382,985)	-	(382,985)	-
Internal activity - Net payments to other funds	(300,875)	(465)	(301,340)	-
Other receipts	55,531	1,668	57,199	-
Net cash provided by (used in) operating activities	496,896	16,649	513,545	(4,318)
<b>Cash Flows from Capital and Related Financing Activities</b>				
Purchase of capital assets	(2,416,185)	(31,121)	(2,447,306)	-
Principal and interest paid on capital debt	(783,413)	(76,343)	(859,756)	-
Proceeds from debt issuance	900,000	-	900,000	-
Grant proceeds	1,539,987	-	1,539,987	-
Property taxes	717,122	-	717,122	-
Net cash used in capital and related financing activities	(42,489)	(107,464)	(149,953)	-
<b>Cash Flows from Noncapital and Related Financing Activities</b>				
Internal activity - Loans made to other funds	-	69,976	69,976	-
<b>Cash Flows from Investing Activities</b> - Interest received on investments	29,263	457	29,720	7,063
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	483,670	(20,382)	463,288	2,745
<b>Cash and Cash Equivalents</b> - Beginning of year	2,394,701	29,901	2,424,602	231,326
<b>Cash and Cash Equivalents</b> - End of year	<u>\$ 2,878,371</u>	<u>\$ 9,519</u>	<u>\$ 2,887,890</u>	<u>\$ 234,071</u>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>				
Cash and investments	\$ 2,803,371	\$ 9,519	\$ 2,812,890	\$ 234,071
Restricted investments (Note 3)	75,000	-	75,000	-
Total cash and cash equivalents	<u>\$ 2,878,371</u>	<u>\$ 9,519</u>	<u>\$ 2,887,890</u>	<u>\$ 234,071</u>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>				
Operating loss	\$ (139,670)	\$ (4,646)	\$ (144,316)	\$ (26,702)
Adjustments to reconcile operating loss to net cash from operating activities:				
Depreciation and amortization	567,045	25,773	592,818	-
Changes in assets and liabilities:				
Receivables	(9,985)	(857)	(10,842)	-
Due from other funds	225	(400)	(175)	-
Other assets	(24,372)	1,642	(22,730)	(6,308)
Accounts payable	64,268	(4,977)	59,291	-
Accrued and other liabilities	49,485	179	49,664	28,692
Due to other funds	(10,100)	(65)	(10,165)	-
Net cash provided by (used in) operating activities	<u>\$ 496,896</u>	<u>\$ 16,649</u>	<u>\$ 513,545</u>	<u>\$ (4,318)</u>

# City of Farmington, Michigan

## Fiduciary Funds Statement of Net Assets June 30, 2003

	Pension and Other Employee Benefits	Private Purpose Trust Fund - Cemetery Perpetual Care Trust	Agency Fund
<b>Assets</b>			
Cash and investments:			
Cash and cash equivalents	\$ 15,765	\$ 18,549	\$ 129,371
U.S. governmental securities	1,985,416	-	-
Corporate stock	3,939,045	-	-
Corporate bonds	3,953,979	-	-
Mutual funds	3,600,166	-	-
Investment pools	1,502,974	-	-
Receivables	439,285	-	-
Total assets	15,436,630	<u>\$ 18,549</u>	<u>\$ 129,371</u>
<b>Liabilities</b>			
Accounts payable	11,542	\$ -	\$ -
Due to other governmental units	-	-	5,596
Accrued and other liabilities	1,493	18,549	123,775
Total liabilities	<u>13,035</u>	<u>\$ 18,549</u>	<u>\$ 129,371</u>
<b>Net Assets</b> - Held in trust for pension and other employee benefits	<u>\$ 15,423,595</u>		



# City of Farmington, Michigan

## Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2003

	Pension and Other Employee Benefits
<b>Additions</b>	
Investment income:	
Interest and dividends	\$ 456,566
Net realized and unrealized gain on investments	<u>163,710</u>
Net investment income	620,276
Contributions:	
Employer	326,402
Employee	<u>49,404</u>
Total contributions	<u>375,806</u>
Total additions	996,082
<b>Deductions</b>	
Benefit payments	554,611
Insurance costs	188,478
Administrative expenses	<u>77,340</u>
Total deductions	<u>820,429</u>
<b>Net Increase in Plan Net Assets</b>	175,653
<b>Net Assets Held in Trust for Pension and Other Employee Benefits</b>	
Beginning of year	<u>15,247,942</u>
End of year	<u><u>\$ 15,423,595</u></u>

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the City of Farmington (the “City”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Farmington:

#### **Reporting Entity**

The City of Farmington is governed by an elected five-member council. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. Although blended component units are legally separate entities, in substance, they are part of the City’s operations. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

#### **Blended Component Unit**

The City of Farmington Employees’ Retirement System has been blended into the City’s financial statements. The system is governed by a five-member pension board that includes two individuals chosen by the City Council and one individual, the city manager, who serves by virtue of his position. The system is reported as if it were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the retirement system.

#### **Discretely Presented Component Unit**

The Downtown Development Authority (the “Authority”) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority’s governing body, which consists of eight individuals, is selected by the mayor with City Council approval. In addition, the Authority’s budget is subject to approval by the City.

#### **Jointly Governed Organizations**

The City participates in the Michigan 47th District Court Administration Fund and the Farmington Community Library with the City of Farmington Hills. The City provides approximately 13 percent of the funding for the Michigan 47th District Court Administration Fund, and has recorded an equity interest in the amount of \$12,591 for the year ended June 30, 2003. The City provides less than 10 percent of the funding for the library.

### **Note I - Summary of Significant Accounting Policies (Continued)**

Complete financial statements for the 47th District Court Administration Fund and the Farmington Community Library can be obtained from the City's administrative offices at 23600 Liberty Street, Farmington, Michigan 48335.

The City also participates in the Southwest Oakland Cable Commission (the "Cable Commission") as a joint venture with the cities of Farmington Hills and Novi. The Cable Commission receives 3 percent of the total cable television charges from the cable television company as franchise fees and currently does not receive a subsidy from the City. Financial information for the joint venture can be obtained from the Cable Commission's administrative offices at 33300 Nine Mile Road, Farmington, Michigan.

In addition, the City is a member of the Resource Recovery and Recycling Authority of Southwest Oakland County (RRRASOC). The RRRASOC is incorporated by the cities of Farmington, Farmington Hills, Novi, South Lyon, Southfield, Walled Lake, and Wixom and the Charter Township of South Lyon. The RRRASOC receives its operating revenue from member contributions and miscellaneous income. The City contributed \$12,768 for the year ended June 30, 2003. Financial information for the RRRASOC can be obtained from the RRRASOC's administrative offices at 20000 West Eight Mile Road, Southfield, Michigan.

For all the above joint ventures, the City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the future.

### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

### **Note I - Summary of Significant Accounting Policies (Continued)**

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes and State-shared revenues are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major Street Fund accounts for the resources obtained through State gas and weight tax revenues that are restricted for use on major streets.
- The Local Street Fund accounts for the resources obtained through State gas and weight tax revenues that are restricted for use on local streets.
- The Municipal Street Fund accounts for the resources obtained through property taxes that are used for both major and local street projects.
- The Capital Improvement Fund accounts for the resources used for the purpose of constructing all major capital improvement projects of the City other than special assessment, road, and enterprise projects; and for the acquisition of major capital assets.

The City reports the following major proprietary funds:

- The Water and Sewer Fund accounts for the water distribution system and sewage collection system.
- The Farmington Community Theater Fund accounts for the activity provided by the Civic Theatre.

Additionally, the City reports the following fund types:

**Internal Service Fund** - The Self-insurance Fund accounts for the portion of the City's insurance liability not covered by commercially provided insurance.

### **Note I - Summary of Significant Accounting Policies (Continued)**

**Pension and Other Employee Benefits Funds** - The Pension and Other Employee Benefits Funds account for the resources set aside by the City to provide retirement, health, and insurance benefits for its employees in accordance with resolutions, ordinances, employee agreements, and union contracts.

**Private Purpose Trust Fund** - The private purpose trust fund accounts for resources restricted for the upkeep and maintenance of the City's cemetery.

**Agency Fund** - The Agency Fund accounts for assets held by the City in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund recognizes federal grants as nonoperating revenue, since the funds are intended to recover the cost of the related infrastructure.

Operating expenses for proprietary funds include the cost of source of supply, transmission and distribution maintenance, and administrative and general expenses, including depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

**Property Taxes** - All trade and property tax receivables are shown as net of allowance for uncollectible amounts, if deemed necessary. Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 1, at which time penalties and interest are assessed.

The 2002 taxable valuation of the City totaled \$356 million, on which ad valorem taxes levied consisted of 10.9600 mills for the City's operating purposes, .1000 mills for sidewalk maintenance, 2.3580 mills for drain and sewer improvements, 1.5652 mills for street improvements and maintenance, and .1420 mills for debt service related to the new 47<sup>th</sup> District Court facility. The ad valorem taxes levied raised \$3,830,000 for operations, \$35,000 for sidewalk maintenance, \$92,000 for drain and sewer improvements, \$547,000 for street improvements and maintenance, and \$51,000 for debt service related to the 47<sup>th</sup> District Court facility. These amounts are recognized in the respective General, Special Revenue, and Debt Service Funds financial statements as taxes receivable - current or as tax revenue.

**Prepaid Costs and Other Assets** - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements. Other assets consist primarily of inventories, which are valued at cost, on a first-in, first-out basis.

**Restricted Assets** - Restricted assets consist of cash and cash equivalents in the amount of \$75,000 in the Water and Sewer Fund. The assets in the Water and Sewer Fund are restricted for a replacement reserve as required by the 1991 Water Supply and Sewer Disposal System Bond ordinance.

### Note I - Summary of Significant Accounting Policies (Continued)

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$4,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The City's capital assets are depreciated using the straight-line method over the following useful lives:

Flowage rights	25 years
Infrastructure	10-50 years
Buildings and improvements	5-80 years
Court building	10-50 years
Equipment and other	4-25 years
Vehicles	3-30 years
Water and sewer mains	50 years
Water storage tank	50 years
Water meters	20 years
Truck and tractors	7-15 years
Office equipment	5-20 years
Other equipment	5-15 years

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. In the government-wide and proprietary fund financial statements, a portion of the vacation and sick pay is accrued when incurred for the amount that would be paid out upon separation of the employee from the City. In the governmental funds, a liability for these amounts is reported only for employee terminations as of year end.



### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Cash Equivalents** - For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Construction Code Fees** - The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Shortfall at July 1, 2002		\$ (67,631)
Current year building permit revenue		52,101
Related expenses:		
Direct costs	\$ 81,030	
Estimated indirect costs	<u>8,103</u>	
Total construction code expenses		<u>89,133</u>
Net shortfall for the year ended June 30, 2003		<u>(37,032)</u>
Cumulative shortfall at June 30, 2003		<u><u>\$ (104,663)</u></u>

### Note 2 - Stewardship, Compliance, and Accountability

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end. The City Charter requires the city manager to submit a budget for the next fiscal year to the City Council on or before the third Monday in April, and the City Council to adopt, by resolution, a budget for the next fiscal year on or after May 1 and not later than the first Monday in June. The City Council may make pass amendments to the budget during the fiscal year by resolution.

During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General and major Special Revenue Funds is presented as required supplemental information. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the nonmajor funds can be obtained from the City offices at 23600 Liberty Street, Farmington, MI 48335.

### **Note 2 - Stewardship, Compliance, and Accountability (Continued)**

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, except that transfers have been included in the “revenue” and “expenditures” categories, rather than as “other financing sources (uses).”

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is activity level.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The City did not have significant expenditure budget variances.

The Community Theatre Fund had a net assets deficit at year end of approximately \$247,000. A deficit elimination plan is on file with the State.

### **Note 3 - Deposits and Investments**

Michigan Compiled Laws, Section 129.91 authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in the following:

- Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with Section 1, Subsection (2) of PA 20 of 1943 as amended
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after date of purchase

### Note 3 - Deposits and Investments (Continued)

- Repurchase agreements consisting of bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States as described above
- Banker's acceptances of United States banks
- Obligations of the State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service
- Mutual funds which comply with Public Act 20 of 1943 as amended. The Treasurer may invest in mutual funds whose net asset value per share may fluctuate on a periodic basis, provided that a report is submitted to Council advising of reasons for the investment and outlining the mutual fund selection process
- Obligations purchased through an interlocal agreement under the Urban Cooperations Act of 1967, 1967 (Extra Session) (PA 7), if allowed by Public Act 20, 1943 as amended
- In investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367
- In investment pools organized under the Local Government Investment Pool Act, 1985 PA 121

The City of Farmington's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and investments	\$ 8,138,403	\$ 2,812,890	\$ 15,145,265	\$ 26,096,558	\$ 358,784
Restricted assets	-	75,000	-	75,000	-
Total	<u>\$ 8,138,403</u>	<u>\$ 2,887,890</u>	<u>\$ 15,145,265</u>	<u>\$ 26,171,558</u>	<u>\$ 358,784</u>

# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2003

### Note 3 - Deposits and Investments (Continued)

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Component Unit
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 1,044,899	\$ 358,734
Investments in securities, mutual funds, and similar vehicles	25,124,774	-
Petty cash or cash on hand	1,885	50
Total	<u>\$ 26,171,558</u>	<u>\$ 358,784</u>

The bank balance of the City's deposits is \$1,218,976, of which \$200,500 is covered by federal depository insurance and the remainder was uninsured and uncollateralized. The component unit's deposits had a bank balance of \$358,539, of which \$100,500 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, with securities held by the City or its agent in the City's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name

### Note 3 - Deposits and Investments (Continued)

At year end, the City's investment balances were categorized as follows:

	1	2	3	Reported Amount (Fair Value)
Primary government:				
U.S. government securities	\$ -	\$ 1,985,416	\$ -	\$ 1,985,416
Corporate bonds	-	3,953,979	-	3,953,979
Common and preferred stock	-	3,939,045	-	3,939,045
Subtotal	<u>\$ -</u>	<u>\$ 9,878,440</u>	<u>\$ -</u>	<u>9,878,440</u>
Investments not subject to categorization:				
Bank investment pool funds				10,925,280
Interlocal agreement investment pool funds				720,887
Mutual funds				<u>3,600,167</u>
Total primary government				<u>\$ 25,124,774</u>

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The bank investment pools, interlocal agreement investment pools, and mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The mutual funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act. Investments under the interlocal agreement (MBIA-CLASS) are regulated by the Urban Cooperation Act. The fair value of the position in the bank investment pools and interlocal agreement pools is the same as the value of the pool shares.

Included in the City of Farmington Employees' Retirement System investments at June 30, 2003 are the following:

Approximately \$1,660,000 of collateralized mortgage obligations, Federal National Mortgage Association (FNMA) securities, and Federal Home Loan securities. These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

### Note 3 - Deposits and Investments (Continued)

- Approximately \$61,000 of securities issued by the Small Business Association (SBA). These investments are usually not backed by the full faith and credit of the U.S. government but are generally considered to offer modest credit risks. The yields provided by these loan-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.
- Approximately \$184,000 of securities issued by the Government National Mortgage Association (GNMA). These investments are backed by the full faith and credit of the U.S. government. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.
- Asset-backed securities of approximately \$266,000. These securities are backed by credit card or other receivables and typically include credit enhancements in the form of overcollateralization, third-party letters of credit, seller resources, insurance company guarantees, and/or senior subordinated structures. These securities are generally considered to offer moderate credit risk, but such risk varies depending on the type of asset being securitized and the extent and nature of the credit enhancement. Prepayment of these "pay through" securities could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields

### Note 4 - Receivables

Receivables as of year end for the City's individual major funds, and the nonmajor and Internal Service Funds, in the aggregate, are as follows:

	General Fund	Major Street Fund	Local Street Fund	Municipal Street Fund	Capital Improvement Fund	Nonmajor and Other Funds	Total
Receivables:							
Taxes	\$ 62,873	\$ -	\$ -	\$ 1,197	\$ -	\$ -	\$ 64,070
Special assessments	4,926	-	-	-	-	-	4,926
Intergovernmental	294,157	81,013	27,951	-	-	-	403,121
Interest and other	27,179	-	-	-	1,671	2,163	31,013
Total receivables	<u>\$ 389,135</u>	<u>\$ 81,013</u>	<u>\$ 27,951</u>	<u>\$ 1,197</u>	<u>\$ 1,671</u>	<u>\$ 2,163</u>	<u>\$ 503,130</u>

# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2003

### Note 4 - Receivables (Continued)

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, deferred revenue consisted of \$3,284 in special assessments that were earned but unavailable.

### Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

<b>Governmental Activities</b>	Balance July 1, 2002	Additions	Disposals and Adjustments	Balance June 30, 2003
Capital assets not being depreciated:				
Land	\$ 1,185,454	\$ -	\$ -	\$ 1,185,454
Equity investment in 47th District Court	11,309	1,282	-	12,591
Construction in progress - 47th District Court	1,400,300	-	-	1,400,300
Construction in progress - County road	259,964	161,758	-	421,722
Subtotal	2,857,027	163,040	-	3,020,067
Capital assets being depreciated/ amortized:				
Flowage rights	946,170	-	-	946,170
Infrastructure	7,705,107	530,466	-	8,235,573
Buildings and improvements	2,741,977	17,261	-	2,759,238
Court building	69,742	-	-	69,742
Equipment and other	580,785	43,135	-	623,920
Vehicles	1,097,335	113,688	(97,429)	1,113,594
Subtotal	13,141,116	704,550	(97,429)	13,748,237
Accumulated depreciation/ amortization:				
Flowage rights	(473,687)	(37,847)	-	(511,534)
Infrastructure	(2,643,185)	(309,584)	-	(2,952,769)
Buildings and improvements	(924,432)	(89,954)	-	(1,014,386)
Court building	(34,210)	(1,634)	-	(35,844)
Equipment and other	(340,184)	(44,384)	-	(384,568)
Vehicles	(618,874)	(101,063)	96,130	(623,807)
Subtotal	(5,034,572)	(584,466)	96,130	(5,522,908)
Net capital assets being depreciated	8,106,544	120,084	(1,299)	8,225,329
Net capital assets	\$ 10,963,571	\$ 283,124	\$ (1,299)	\$ 11,245,396



# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2003

### Note 5 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2002	Additions	Disposals and Adjustments	Balance June 30, 2003
Capital assets not being depreciated:				
Land	\$ 173,509	\$ -	\$ -	\$ 173,509
Construction in progress	94,763	230,618	(94,763)	230,618
Subtotal	268,272	230,618	(94,763)	404,127
Capital assets being depreciated:				
Building	1,773,649	33,616	(15,888)	1,791,377
Water and sewer mains	21,183,946	2,470,526	(4,207)	23,650,265
Water storage tank	53,791	-	-	53,791
Water meters	143,518	1,849	-	145,367
Truck and tractors	321,523	26,750	(3,842)	344,431
Office equipment	289,033	-	(11,883)	277,150
Other equipment	202,456	10,512	(92,558)	120,410
Subtotal	23,967,916	2,543,253	(128,378)	26,382,791
Accumulated depreciation:				
Buildings	(468,724)	(48,166)	7,297	(509,593)
Water and sewer mains	(6,834,159)	(475,261)	817	(7,308,603)
Water storage tank	(46,268)	(1,076)	-	(47,344)
Water meters	(125,596)	(2,001)	-	(127,597)
Truck and tractors	(164,550)	(31,960)	3,794	(192,716)
Office equipment	(136,862)	(32,026)	8,354	(160,534)
Other equipment	(148,669)	(2,328)	72,884	(78,113)
Subtotal	(7,924,828)	(592,818)	93,146	(8,424,500)
Net capital assets being depreciated	16,043,088	1,950,435	(35,232)	17,958,291
Net capital assets	\$ 16,311,360	\$ 2,181,053	\$ (129,995)	\$ 18,362,418

# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2003

### Note 5 - Capital Assets (Continued)

Component Unit	Balance July 1, 2002	Additions	Disposals and Adjustments	Balance June 30, 2003
Capital assets not being depreciated -				
Land	\$ 76,500	\$ -	\$ -	\$ 76,500
Capital assets being depreciated:				
Land improvements	67,250	6,081	-	73,331
Office equipment	-	4,380	-	4,380
Green areas	29,914	-	-	29,914
Subtotal	97,164	10,461	-	107,625
Accumulated depreciation:				
Land improvements	(6,551)	(2,242)	-	(8,793)
Office equipment	-	-	-	-
Green areas	(11,966)	(5,983)	-	(17,949)
Subtotal	(18,517)	(8,225)	-	(26,742)
Net capital assets being depreciated	78,647	2,236	-	80,883
Net capital assets	<u>\$ 155,147</u>	<u>\$ 2,236</u>	<u>\$ -</u>	<u>\$ 157,383</u>

Depreciation expense was charged to programs of the primary government as follows:

#### Governmental activities:

General government	\$ 47,313
Public safety	128,695
Public works	369,543
Recreation and culture	38,915

Total governmental activities \$ 584,466

#### Business-type activities:

Water and sewer	\$ 567,045
Theater	25,773

Total business-type activities \$ 592,818

# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2003

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due to/from Other Funds</b>		
General Fund	Major Street Fund	\$ 15,521
	Local Street Fund	53,054
	Water and Sewer Fund	27,179
	Farmington Community Theater Fund	61
		<u>95,815</u>
Total		95,815
Major Street Fund	Water and Sewer Fund	406
Local Street Fund	Municipal Street Fund	327,625
Water and Sewer Fund	General Fund	180
Farmington Community Theater Fund	General Fund	400
Total		<u>\$ 424,426</u>

### Advances from/to Other Funds

Capital Improvement Fund	Farmington Community Theater Fund	<u>\$ 678,211</u>
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### Interfund Transfers

	Transfers Out		
	Major Street Fund	Local Street Fund	Municipal Street Fund
Transfers in:			
Local Street Fund	\$ -	\$ -	\$ 598,606
Debt service	<u>38,805</u>	<u>33,593</u>	<u>-</u>
Total	<u>\$ 38,805</u>	<u>\$ 33,593</u>	<u>\$ 598,606</u>

### Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. The general obligation bonds are direct obligations and pledge the full faith and credit of the City. The county drain contracts and Michigan Transportation Fund Bonds are also general obligations of the government. The Building Authority Bonds are general obligations of the Farmington Hills Building Authority. Both the City of Farmington and the City of Farmington Hills have signed lease agreements with the Farmington Hills Building Authority, which provide for lease payments in the exact amount of the debt service on the Building Authority Bonds. The City of Farmington's portion of these lease payments is recorded below. Revenue bonds involve a pledge of specific income derived from the acquired or constructed access to pay debt service.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>							
Bond and contract obligations:							
Transportation Fund Bonds:							
1992 Michigan Transportation Fund Bonds:							
Amount of issue - \$300,000							
Maturing through 2003	5.75%	\$40,000	\$ 75,000	\$ -	\$ (35,000)	\$ 40,000	\$ 40,000
1995 Michigan Transportation Fund Bonds:							
Amount of issue - \$380,000	5.05%-	\$25,000-					
Maturing through 2009	5.65%	\$40,000	255,000	-	(20,000)	235,000	25,000
County drain contracts:							
1985 Caddell Drain Issue:							
Amount of issue - \$505,750							
Maturing through 2003	5.53%	\$27,648	64,751	-	(37,103)	27,648	27,648
1994 Caddell Drain Issue:							
Amount of issue - \$345,100							
Maturing through 2003*	*	*	282,289	-	(282,289)	-	-
2003 Caddell Drain Refunding Issue:							
Amount of issue - \$286,280	1.5%-	\$18,189-					
Maturing through 2014	4.0%	\$26,097	-	286,280	-	286,280	18,189
Building Authority Bonds:							
2001 Building Authority Bonds -							
47th District Court:							
Amount of issue - \$1,400,300**	3.0%-	\$38,190-					
Maturing through 2021	5.0%	\$127,300	1,400,300	-	(25,460)	1,374,840	38,190
Total governmental activities			\$ 2,077,340	\$ 286,280	\$ (399,852)	\$ 1,963,768	\$ 149,027

\* 1994 Caddell Drain Issue was refunded in the current year.

\*\* Amount represents the City of Farmington's portion of bonds issued by the City of Farmington Hills' Building Authority.

# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2003

### Note 7 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type Activities</b>							
General Obligation Bonds:							
1990 Sewer Improvements:							
Amount of issue - \$12,000,000		\$630,000-					
Maturing through 2010	2.0%	\$725,000	\$ 6,015,000	\$ -	\$ (615,000)	\$ 5,400,000	\$ 630,000
2003 Capital Improvement Sewer Bonds:							
Amount of Issue - \$900,000	3.2%-	\$25,000-					
Maturing through 2023	4.8%	\$60,000	-	900,000	-	900,000	25,000
Revenue bonds:							
1991 Water Supply and Sewer Disposal							
System Bonds:							
Amount of issue - \$934,212		\$45,000-					
Maturing through 2013	2.0%	\$55,000	560,000	-	(45,000)	515,000	45,000
1999 Community Theatre Bonds:							
Amount of issue - \$690,000	4.8%-	\$35,000-					
Maturing through 2015	5.95%	\$65,000	660,000	-	(35,000)	625,000	35,000
Total business-type activities			\$ 7,235,000	\$ 900,000	\$ (695,000)	\$ 7,440,000	\$ 735,000

Annual debt service requirements to maturity for the above governmental and business-type bonds and contracts are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 149,027	\$ 83,570	\$ 232,597	\$ 735,000	\$ 159,876	\$ 894,876
2005	90,333	78,641	168,974	750,000	187,080	937,080
2006	90,333	75,406	165,739	775,000	164,845	939,845
2007	112,017	71,721	183,738	785,000	148,158	933,158
2008	111,226	67,241	178,467	810,000	130,978	940,978
2009-2013	520,036	267,388	787,424	2,860,000	310,131	3,170,131
2014-2018	521,626	160,717	682,343	440,000	112,189	552,189
2019-2023	369,170	37,324	406,494	285,000	34,362	319,362
Total	\$ 1,963,768	\$ 842,008	\$ 2,805,776	\$ 7,440,000	\$ 1,247,619	\$ 8,687,619

### **Note 7 - Long-term Debt (Continued)**

**Advance and Current Refundings** - During the year, the City was special assessed \$286,280 by the Oakland County Drain Commissioner to pay for the City's portion of general obligation bonds issued by the Drain Commissioner with an average interest rate of 3.3 percent. The proceeds of these bonds were used to advance refund \$267,734 of outstanding 1994 Caddell Drainage District Bonds with an average interest rate of 5.3 percent. The net proceeds of \$280,157 (after payment of \$6,123 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the statement of net assets. The advance refunding reduced total debt service payments over the next 12 years by approximately \$30,214, which represents an economic gain of approximately \$28,195.

### **Note 8 - Risk Management**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits provided to employees, and participates in the Michigan Municipal Risk Management Authority, a risk pool for claims relating to property loss, torts, and errors and omissions. The City also participates in the Michigan Municipal League (MML) risk pool for employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The MML risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority (the "MML Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the MML Authority that the MML Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City. The activity for the MML Authority is accounted for in the Self-insurance Fund.

### **Note 9 - Defined Benefit Pension Plan**

#### **Plan Description**

The City of Farmington Employees' Retirement System is a single-employer defined benefit pension plan that is administered by the City of Farmington; this plan covers nearly all employees of the City. The system provides retirement and disability benefits to plan members and their beneficiaries. At June 30, 2002, the date of the most recent actuarial valuation, membership consisted of 33 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 57 current active employees. The plan does not issue a separate financial report.

#### **Contributions**

Plan member contributions are recognized in the period in which the contributions are made. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by ordinance and by negotiation with the City's competitive bargaining units and employee groups and requires a contribution from the employees of 0 percent to 3 percent, depending on employee group. The funding policy provides for periodic employer contributions at actuarially determined rates. Investment management costs of the plan are paid by the plan.

#### **Annual Pension Costs**

For the year ended June 30, 2003, the City's annual pension cost of \$24,962 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2002, using the entry actual age actuarial cost method. Significant actuarial assumptions used include: (a) a rate of return on the investment of present and future assets of 8 percent per year compounded annually (including an inflation component of 5 percent), (b) projected salary increases of 5 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0 percent to 5 percent per year, depending on age, attributable to seniority/merit, and (d) no postretirement benefit increase. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The excess of assets over the actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 20 years.

### Note 9 - Defined Benefit Pension Plan (Continued)

#### Reserves

As of June 30, 2003, the plan's legally required reserves have been fully funded as follows:

Reserves for employees' contributions	\$ 313,285
Reserves for retired benefit payments	5,649,215

Three-year trend information as of June 30 follows:

	Fiscal Year Ended December 31		
	2003	2002	2001
Annual pension costs (APC)	\$ 24,962	\$ 9,873	\$ 89,216
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

### Note 10 - Postemployment Benefits

The City provides health care benefits to all full-time employees and their eligible beneficiaries upon retirement, in accordance with labor contracts and employee agreements, and in accordance with the City of Farmington's Retiree Health Care Plan (the "Plan"). The Plan was established by ordinance and created under the authority of the Public Employee Health Care Fund Investment Act, Public Act 149 of 1999 and is administered by the City of Farmington. The Plan funds the City's share of retiree health care insurance premiums, which are based on the employee's years of service. The City is currently funding the Plan based on actuarial estimates, but is required by ordinance to fund the Plan on an actuarial basis on or before July 1, 2008. Currently, 32 retirees are eligible and 23 are participating. Expenditures for insurance premiums during the year amounted to approximately \$188,000.



### Note 11 - Accounting and Reporting Change

#### GASB No. 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The City has applied the provisions of this statement in the accompanying financial statements (including notes to financial statements). The City has elected to implement both the general provisions of the statement and the retroactive reporting of the infrastructure in the current year. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on the major funds
- Capital assets in the governmental activities column of the statement of net assets include infrastructure assets (roads, bridges, etc.) not previously accounted for by the City, as well as assets totaling \$11,245,396 that would previously have been reported in the General Fixed Assets Account Group.
- Capital assets at July 1, 2002, previously reported in the General Fixed Assets Account Group, have been adjusted by \$2,578,232 to reflect the historical cost of the City's capital assets at that date.
- The governmental activities column includes bonds and other long-term obligations totaling \$2,504,520 previously reported in the General Long-term Debt Account Group.
- The Public Employee Health Care, Employee Fringe Benefit, and Disability Health Insurance Funds have been reclassified from Internal Service Funds to fiduciary funds.
- The Municipal Sidewalk and Employee Accrued Benefits Funds have been combined with the General Fund.
- The Cemetery Perpetual Care Fund has been divided into operational and trust activities. The operation activities have been combined with the General Fund. The trust activities are reported in a private purpose trust fund.
- The 1990 Sewer Improvement Bonds in the amount of \$6,015,000 were reclassified from the General Long-term Debt Account Group to the Water and Sewer Fund.

# City of Farmington, Michigan

## Notes to Financial Statements June 30, 2003

### Note 12 - Designated Fund Balance

The following is a summary of the unreserved fund balances of the governmental funds with management's designations:

	Funds			
	General	Major Street	Local Street	Municipal Street
Designated for:				
Cemeteries	\$ 46,259	\$ -	\$ -	\$ -
Accrued benefits	540,752	-	-	-
Sidewalk	143,075	-	-	-
Working capital	191,258	-	-	-
Pending personal property tax appeals	148,455	-	-	-
Contribution, retiree health care	250,000	-	-	-
Subsequent year's expenditures	<u>100,180</u>	<u>247,360</u>	<u>22,650</u>	<u>67,670</u>
Total designated	<u>\$ 1,419,979</u>	<u>\$ 247,360</u>	<u>\$ 22,650</u>	<u>\$ 67,670</u>
Unreserved	<u>\$ 2,314,235</u>	<u>\$ 432,456</u>	<u>\$ 171,079</u>	<u>\$ 335,183</u>

## **Required Supplemental Information**

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# City of Farmington, Michigan

## Required Supplemental Information Budgetary Comparison Schedule General Fund Year Ended June 30, 2003

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
<b>Resources (Inflows)</b>				
Property taxes	\$ 3,847,080	\$ 3,848,265	\$ 3,885,923	\$ 37,658
Licenses and permits	70,370	78,210	89,606	11,396
Intergovernmental revenues	123,259	69,758	65,036	(4,722)
State-shared revenues	1,162,500	1,116,520	1,114,233	(2,287)
Charges for services	424,745	436,810	448,797	11,987
Charges for services - Sales	10,000	13,400	19,963	6,563
Fines, forfeits, and court costs	439,600	496,000	540,143	44,143
Investment income	100,000	65,000	67,389	2,389
Miscellaneous	159,575	187,990	172,837	(15,153)
Transfers from other funds	414,820	478,060	417,600	(60,460)
Proceeds from sale of capital assets	-	17,295	21,623	4,328
Amounts available for appropriation	6,751,949	6,807,308	6,843,150	35,842
<b>Charges to Appropriations (Outflows)</b>				
General government	1,334,353	1,431,960	1,285,954	146,006
Court	329,027	318,659	324,016	(5,357)
Public safety	2,156,344	2,132,667	1,964,988	167,679
Public services	926,700	907,105	835,882	71,223
Health and welfare	-	30,252	28,667	1,585
Community and economic development	-	14,775	9,998	4,777
Recreation and culture	-	432,603	401,218	31,385
Parks and recreation	368,106	-	-	-
Library	293,278	284,484	284,484	-
Miscellaneous	210,675	-	-	-
Insurance and benefits	871,965	-	-	-
Insurance and bonds	-	98,240	98,236	4
Employee benefits	-	843,260	804,910	38,350
Retiree health care	251,470	251,470	246,745	4,725
Total charges to appropriations	6,741,918	6,745,475	6,285,098	460,377
<b>Transfers to Fund Balance</b>	<b>\$ 10,031</b>	<b>\$ 61,833</b>	<b>\$ 558,052</b>	<b>\$ 496,219</b>

# City of Farmington, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Major Street Fund Year Ended June 30, 2003

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
<b>Resources (Inflows)</b>				
State-shared revenue	\$ 371,830	\$ 383,480	\$ 377,069	\$ (6,411)
Contracts and grants	93,670	126,180	122,060	(4,120)
Other revenue	20,000	7,200	7,293	93
Appropriations from fund balance	<u>99,865</u>	<u>157,965</u>	<u>-</u>	<u>(157,965)</u>
Amounts available for appropriation	585,365	674,825	506,422	(168,403)
<b>Charges to Appropriations (Outflows)</b>				
Operations and maintenance	547,085	288,780	291,689	(2,909)
Transfers to other funds	38,280	38,545	38,805	(260)
Contributions - Other systems	<u>-</u>	<u>347,500</u>	<u>146,544</u>	<u>200,956</u>
Total charges to appropriations	<u>585,365</u>	<u>674,825</u>	<u>477,038</u>	<u>197,787</u>
<b>Transfers to Fund Balance</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,384</u>	<u>\$ 29,384</u>

# City of Farmington, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Local Street Fund Year Ended June 30, 2003

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
<b>Resources (Inflows)</b>				
State-shared revenue	\$ 160,430	\$ 164,675	\$ 161,870	\$ (2,805)
Transfer - Municipal Street Fund	524,395	814,145	598,606	(215,539)
Other revenue	3,800	16,300	10,496	(5,804)
Appropriations from fund balance	<u>100,000</u>	<u>19,010</u>	<u>-</u>	<u>(19,010)</u>
Amounts available for appropriation	788,625	1,014,130	770,972	(243,158)
<b>Charges to Appropriations (Outflows)</b>				
Road improvements	550,000	710,000	525,594	184,406
Operations and maintenance	205,480	270,760	202,074	68,686
Interfund transfers	<u>33,145</u>	<u>33,370</u>	<u>33,593</u>	<u>(223)</u>
Total charges to appropriations	<u>788,625</u>	<u>1,014,130</u>	<u>761,261</u>	<u>252,869</u>
<b>Transfers to Fund Balance</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,711</u>	<u>\$ 9,711</u>

# City of Farmington, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Municipal Street Fund Year Ended June 30, 2003

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
<b>Resources (Inflows)</b>				
Property taxes	\$ 550,290	\$ 546,430	\$ 546,485	\$ 55
Other income	10,000	8,890	7,908	(982)
Appropriations from fund balance	-	258,825	44,213	(214,612)
Amounts available for appropriation	560,290	814,145	598,606	(215,539)
<b>Charges to Appropriations (Outflows) -</b>				
Transfer - Local Street Fund	524,395	814,145	598,606	215,539
<b>Transfer to Fund Balance</b>	<b>\$ 35,895</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

# City of Farmington, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Capital Improvement Fund Year Ended June 30, 2003

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Favorable (Unfavorable) Variance With <u>Amended Budget</u>
<b>Resources (Inflows)</b> - Investment income/Transfers to fund balance	<u>\$ 32,000</u>	<u>\$ 32,000</u>	<u>\$ 37,943</u>	<u>\$ 5,943</u>



# City of Farmington, Michigan

## Required Supplemental Information Retirement System Schedule of Funding Progress (dollar amounts in millions) Year Ended June 30, 2003

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
06/30/97	\$ 10.80	\$ 8.70	\$ 2.10	124.1	\$ 2.4	-
06/30/98	12.50	9.30	3.20	134.4	2.5	-
06/30/99	14.20	10.10	4.10	140.6	2.6	-
06/30/00	16.00	10.70	5.30	149.5	2.8	-
06/30/01	16.80	11.70	5.10	143.6	2.7	-
06/30/02	16.70	12.70	4.00	131.5	2.9	-

The schedule of employer contributions is as follows:

Fiscal Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
1998	06/30/97	\$ 212,352	100.0
1999	06/30/98	162,271	100.0
2000	06/30/99	141,720	100.0
2001	06/30/00	89,216	100.0
2002	06/30/01	9,873	100.0
2003	06/30/02	24,962	100.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2002, the latest actuarial valuation, follows:

Actuarial cost method	Entry age actuarial cost method
Amortization method	Level percent of payroll
Amortization period (perpetual)	20 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	5%-10%
*Includes inflation at	5%
Cost of living adjustments	None

## **Other Supplemental Information**

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# City of Farmington, Michigan

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2003

	Debt			Total
	Nonvoted	1992	1995	Nonmajor
	Debt Service	Act 175	Act 175	Governmental
		Debt	Debt	Funds
<b>Assets</b>				
Cash and investments	\$ 124,462	\$ -	\$ -	\$ 124,462
Receivables - Net	2,163	-	-	2,163
Total assets	<u><u>\$ 126,625</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 126,625</u></u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>	\$ -	\$ -	\$ -	\$ -
<b>Fund Balances</b> - Unreserved -				
Debt Service Funds	126,625	-	-	126,625
Total liabilities and fund balances	<u><u>\$ 126,625</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 126,625</u></u>

# City of Farmington, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2003

	Debt Service Funds			Total Nonmajor Governmental Funds
	Nonvoted Debt Service	1992 Act 175 Debt	1995 Act 175 Debt	
<b>Revenues</b>				
Property taxes	\$ 143,423	\$ -	\$ -	\$ 143,423
Interest income	2,747	-	-	2,747
Total revenues	146,170	-	-	146,170
<b>Expenditures</b>				
Principal	77,618	35,000	20,000	132,618
Interest	87,391	3,805	13,593	104,789
Total expenditures	165,009	38,805	33,593	237,407
<b>Excess Expenditures Over Revenues</b>	(18,839)	(38,805)	(33,593)	(91,237)
<b>Other Financing Sources (Uses)</b>				
Issuance of debt	286,280	-	-	286,280
Payment to escrow agent	(280,157)	-	-	(280,157)
Transfers in	-	38,805	33,593	72,398
Total other financing sources (uses)	6,123	38,805	33,593	78,521
<b>Net Change in Fund Balances</b>	(12,716)	-	-	(12,716)
<b>Fund Balances - Beginning of year</b>	139,341	-	-	139,341
<b>Fund Balances - End of year</b>	<u>\$ 126,625</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 126,625</u>

# City of Farmington, Michigan

## Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds June 30, 2003

	Pension and Other Employee Benefits				
	Employees' Retirement System	Public Employee Health Care Fund	Employee Fringe Benefits Fund	Disability Health Insurance Fund	Total
<b>Assets</b>					
Cash and investments:					
Cash and cash equivalents	\$ 15,765	\$ -	\$ -	\$ -	\$ 15,765
U.S. governmental securities	1,985,416	-	-	-	1,985,416
Corporate stock	3,939,045	-	-	-	3,939,045
Corporate bonds	3,953,979	-	-	-	3,953,979
Mutual funds	3,600,166	-	-	-	3,600,166
Investment pools	-	1,431,116	22,063	49,795	1,502,974
Receivables	439,285	-	-	-	439,285
Total assets	13,933,656	1,431,116	22,063	49,795	15,436,630
<b>Liabilities</b>					
Accounts payable	9,392	-	2,000	-	11,392
Accrued and other liabilities	1,643	-	-	-	1,643
Total liabilities	11,035	-	2,000	-	13,035
<b>Net Assets</b> - Held in trust for pension and other employee benefits	<b>\$ 13,922,621</b>	<b>\$ 1,431,116</b>	<b>\$ 20,063</b>	<b>\$ 49,795</b>	<b>\$ 15,423,595</b>

# **City of Farmington, Michigan**

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## **Federal Awards Supplemental Information June 30, 2003**

# City of Farmington, Michigan

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## Independent Auditor's Report

To the City Council  
City of Farmington, Michigan

We have audited the general purpose financial statements of the City of Farmington for the year ended June 30, 2003 and have issued our report thereon dated September 12, 2003. Those general purpose financial statements are the responsibility of the management of the City of Farmington. Our responsibility was to express an opinion on those general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the City of Farmington taken as a whole. The accompanying schedule of expenditures of federal awards and reconciliation of general purpose financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the general purpose financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

*Plante & Moran, PLLC*

September 12, 2003

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**Report Letter on Compliance with Laws and Regulations and  
Internal Control - General Purpose Financial Statements**

To the City Council  
City of Farmington, Michigan

We have audited the financial statements of the City of Farmington as of and for the year ended June 30, 2003 and have issued our report thereon dated September 12, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the City of Farmington's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Farmington's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the City Council  
City of Farmington, Michigan

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

September 12, 2003

Report Letter on Compliance with Laws and Regulations and  
Internal Control - Major Federal Awards

To the City Council  
City of Farmington, Michigan

**Compliance**

We have audited the compliance of the City of Farmington with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2003. The major federal program of the City of Farmington is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Farmington's management. Our responsibility is to express an opinion on the City of Farmington's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Farmington's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Farmington's compliance with those requirements.

In our opinion, the City of Farmington complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

To the City Council  
City of Farmington, Michigan

## **Internal Control Over Compliance**

The management of the City of Farmington is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Farmington's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

September 12, 2003

# City of Farmington, Michigan

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2003

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity	Award Amount	Federal Expenditures
		Project/Grant Number		
U.S. Department of Transportation - Passed through Michigan Department of Transportation - Intermodal Surface Transportation Enhancement Agreement	20.205	ENH98089	\$ 121,730	\$ 37,290
U.S. Department of Housing and Urban Development - Direct Programs - Community Development Block Grant - Passed through Oakland County, Michigan	14.218	801215-60010-3560 802215-60010-3560 802215-60010-3384 899215-60110-2400	17,121 16,243 16,764 14,908	17,121 16,243 16,764 14,908
Total U.S. Department of Housing and Urban Development				65,036
U.S. Environmental Protection Agency - Surveys, Studies, Investigations, and Special Purpose Grants - Special Water and Wastewater Infrastructure Project	66.606	N/A	1,445,000	1,333,843
Total federal awards				<u>\$ 1,436,169</u>

## City of Farmington, Michigan

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### **Reconciliation of General Purpose Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2003**

Revenue from federal sources - As reported on financial statements - Includes all funds	\$ 1,490,341
Pre-award costs incurred prior to project period	<u>(54,172)</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><b>\$ 1,436,169</b></u>

# **City of Farmington, Michigan**

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## **Note to Schedule of Expenditures of Federal Awards Year Ended June 30, 2003**

### **Note - Significant Accounting Policies**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Farmington and is presented on the same basis of accounting as the general purpose financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

# City of Farmington, Michigan

## Schedule of Findings and Questioned Costs Year Ended June 30, 2003

### Section I - Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

#### Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? \_\_\_\_\_ Yes   X   No

Identification of major program(s):

CFDA Number	Name of Federal Program or Cluster
66.606	Surveys, Studies, Investigations, and Special Purpose Grants - Special Water and Wastewater Infrastructure Project

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes   X   No



# **City of Farmington, Michigan**

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## **Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2003**

### **Section II - Financial Statement Audit Findings**

None

### **Section III - Federal Program Audit Findings**

None

September 12, 2003

Honorable Mayor and Members  
of the City Council  
City of Farmington  
23600 Liberty Street  
Farmington, MI 48335

Dear Mayor and Council Members:

We have recently completed our audit of the City's financial statements for the year ended June 30, 2003. As a result of our engagement, we offer the following comments for your consideration:

#### **NEW FINANCIAL STATEMENT FORMAT**

During the current year, the City, along with many other communities in Michigan, was required to implement a new accounting pronouncement that has changed the format and content of your financial statements. The information that was previously provided in your financial statements has been retained in the new financial statement format. In addition, the following major items have been added:

- *Management Discussion and Analysis:* Management is now required to give an overview of the City's overall financial position and results of operations.
- *Government-wide Financial Statements:* These additional statements adjust the normal fund-based statements into a combined, full-accrual format. This allows a financial statement reader to see the City from a longer term perspective (i.e. are today's taxpayers paying the full cost of today's services?). These statements show capital and infrastructure assets, as well as long term debt as part of the City's financial picture.
- *Budget Comparison:* A financial statement reader will now be able to view not only the actual revenue and expenditures of the City as compared to the amended budget, but also as compared to the original budget.

While getting used to the new format may take a while, the Management's Discussion and Analysis section of the new reporting format, as mentioned above, provides an overview of the City's finances, as well as major projects worked on throughout the year.

Accumulating the information necessary for the new financial statement format has meant a significant amount of work for the City's accounting department. The City's staff has done an excellent job of preparing the necessary schedules, as well as assisting and cooperating with the audit work being done on those schedules.

We would be happy to discuss any questions you may have about the new statements and how to best interpret the information provided.

## **STATE SHARED REVENUE**

The City has and will continue to feel the effects of the slowdown in the State's economy. State shared revenue accounts for approximately 16% of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax, revenue sharing payments continue to decline. Currently, the approved budget for the State's 2003/2004 fiscal year includes another reduction to state shared revenue of 3% from fiscal year 2002/2003 levels.

The State's 2003/2004 budget is contingent on significant assumptions and legislative actions which may or may not be realized. Also, by all accounts, the State has longer term structural problems with its budget that have not been solved yet. These problems were illustrated at an impromptu revenue estimating conference on October 14, 2003, where the State announced that they have an unplanned shortfall of \$900 million for the year ended September 30, 2004. The State is reviewing its options regarding how to solve the shortfall, leaving revenue sharing at considerable risk. For planning purposes, we recommend that you budget no growth in state shared revenue payments, and do not rule out additional future cuts. We will continue to update the City as developments occur.

## **FEDERAL AID FROM AUGUST 2003 BLACKOUT**

The State has requested aid from the Federal Government for costs incurred by the State and local governments as a result of the August 2003 blackout. Specifically, emergency monies were requested to reimburse Michigan governmental units for overtime for public safety and transportation workers and other out-of-pocket costs associated with the blackout. If you not already done so, we recommend that you identify your costs associated with the blackout in the event that the State is successful in receiving emergency funds from the Federal Government. It is expected that if emergency funds are received by the State, local units will be allowed to submit claims for consideration.

## **TELECOMMUNICATIONS ACT REVENUE**

Local units of government had until May 9, 2003 to notify the State that they were "opting in" to new Telecommunications Act. The City "opted in" and received the first payment from the METRO Authority this summer. All local units recognized by the METRO Authority as having "opted in" are listed on their website ([www.michigan.gov/metro](http://www.michigan.gov/metro)). The first payment was for a partial year and at a prorated rate. The second and future payments should be much larger as they will be based on a full year and at the standard rate. Checks for the second payment will be distributed in the spring of 2004.

## **NEW HOMESTEAD AUDIT PROGRAM**

Public Act. 105 of 2003 provides new authority for local units of government and the Michigan Department of Treasury to share homestead information to determine if a resident is illegally claiming an homestead exemption on property. As you recall, following the passage of Proposal A in 1994, individuals in Michigan are allowed only one homestead for property tax purposes. A residence which is not an individual's homestead pays property tax at the non-homestead rate. The Michigan Department of Treasury will publish additional guidance related to this new law.

We would like to thank the City Council and all City personnel for the courtesy and assistance extended to us during the audit. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Very truly yours,

**PLANTE & MORAN, PLLC**

A handwritten signature in black ink that reads "Gordon E. Krater". The signature is written in a cursive style with a large initial 'G'.

Gordon E. Krater

A handwritten signature in black ink that reads "Michelle M. Watterworth". The signature is written in a cursive style with a large initial 'M'.

Michelle M. Watterworth